

Simcoe Erie Investors Limited
AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31st



NINETEEN SEVENTY-SIX

HEAD OFFICE
786 King Street East, Hamilton, Ontario
REGISTRAR AND TRANSFER AGENT
The Hamilton Trust & Savings Corporation
Toronto and Hamilton
AUDITORS
Coopers & Lybrand
BANKERS
The Toronto-Dominion Bank
Fulton National Bank, Atlanta, Georgia
The First National Bank of Miami, Florida
Bank of Bermuda
Toronto-Dominion Bank
Cornhill Branch, London, England

SHARES LISTED
Toronto Stock Exchange



Officers

John Conway Stradwick, Jr..... President
Anthony Thomas Chmiel Executive Vice-President
Ernest Dodd Secretary
Ernest Harry Swindall Treasurer

Directors

Anthony Thomas Chmiel, Eric L. Clark, John Thomas Hamilton,
Kenneth Edward Jones, Henry Vernon Kneale,
John Conway Stradwick, Jr., John Charles Stradwick, Sr.,
William Lloyd Stradwick, Ernest Harry Swindall,
John Warren Nevil Thomas, Arnold Joseph Van Heukelom,
Malcolm McNeil Webb.

President's Report

To The Shareholders

On a consolidated basis, earnings available for shareholders in 1976 amounted to \$1,457,786. or \$1.48 per share. Despite a continued increase in unearned premium reserves as a result of substantial growth in premium income, profits more than doubled from the previous year. I am also pleased to report that it was accomplished generally within the guidelines laid down by the Anti-inflation Board.

As predicted at the beginning of 1976 needed rate increases effected in late 1975 worked an improvement on our underwriting results. Earned premium increased \$4,368,505. from 1975 while claims incurred added only \$2,377,126. to the previous year total. At the same time your management feels loss ratios are still too high in many areas and continued effort is being applied to reduce them. Inflation is still a matter of concern since it affects both loss and underwriting expenses. As a result particular attention is being paid to the reduction or elimination of costs in any area that it can be achieved without hurting our ability to control underwriting.

Investment income increased by almost 33.33% to \$1,980,503. despite a modest downturn in interest rates during 1976. The policy of the Investment Committee continues to stress the purchase of high yield blue chip investments and the rapid narrowing of the difference between market value and amortized cost evidences the wisdom of their decision.

The combined efforts of all sectors of your Company have taken the book value of each issued share past \$5.00 for the first time to \$5.64. This was achieved despite an increase in shares outstanding of 126,426. The directors have declared a semi-annual dividend of 6½¢ payable May 2, 1977 to shareholders of record April 21, 1977. This is the maximum amount payable under Anti-inflation Board Guidelines and it is to be hoped the government will provide some relief to shareholders in the not too distant future.



John Gray Thacker
PRESIDENT

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INTERIM REPORT TO SHAREHOLDERS

FOR THE SIX MONTHS ENDED

JUNE 30, 1976

Simcoe Erie Investors Limited

786 KING STREET EAST
HAMILTON, ONTARIO

TO THE SHAREHOLDERS:

On a consolidated basis, net earnings for our first six months increased \$290,136.00. This 80% improvement was the result of continued concentration in underwriting classes of business where it was felt rates had adjusted to existing conditions. We intend to maintain this emphasis on selective underwriting during the months ahead, and, with market capacity failing to meet demand, we see no reason for an imminent return to the inadequate rate levels of the immediate past. Although it is too early to predict the effect of the Anti-Inflation Board on our company, we trust we will be permitted to continue to pursue underwriting policies conducive to the maintenance of a strong financial position so essential to insureds as well as shareholders.

John C. Stradwick, Jr.

August 26, 1976

President

CONSOLIDATED STATEMENT OF EARNINGS For the Six Months Ended June 30, 1976 (Unaudited)

GROSS PREMIUMS WRITTEN	
NET PREMIUMS EARNED	
PROFIT (LOSS) FROM UNDERWRITING OPERATIONS	
EARNINGS BEFORE INTEREST AND INCOME TAXES	
DEBENTURE INTEREST	
PROVISION FOR INCOME TAXES (Net of recovery)	
	1976 \$24,300
	1975 \$144,300
NET EARNINGS FOR THE PERIOD	
EARNINGS PER SHARE - Basic	
	Fully Diluted

CONSOLIDATED STATEMENT OF RESOURCES For the Six Months Ended June 30, 1976 (Unaudited)

RESOURCES PROVIDED

Operations

Net Earnings for the Period	
Deferred Income Taxes	
Depreciation and Amortization (net)	
Realization of other assets	
Equity in profit of corporate joint venture	
Minority interest's share in earnings	
Increase in unearned premiums	
Unrealized exchange gain	

Proceeds of bank loan	
Increase (decrease) in accounts payable over a	

RESOURCES APPLIED

Increase in deferred premium acquisition costs	
Dividends paid	
Purchase of fixed assets	
Repayment of bank loans	

INCREASE IN RESOURCES	
RESOURCES - Beginning of Period	
RESOURCES - End of Period	

MENT OF EARNINGS

Ended June 30, 1976

(dited)	1976 \$	1975 \$
.....	<u>21,240,483</u>	<u>15,845,664</u>
.....	<u>6,820,417</u>	<u>5,168,110</u>
.....	<u>470,893</u>	<u>(377,758)</u>
.....	939,598	542,461
.....	29,658	29,658
f income taxes		
	<u>257,700</u>	<u>150,699</u>
.....	<u>652,240</u>	<u>362,104</u>
.....	66¢	36¢
.....	53¢	30¢

HANGES IN FINANCIAL POSITION

Ended June 30, 1976

(ted)	1976 \$	1975 \$
.....	652,240	362,104
.....	(30,100)	91,900
.....	25,025	(11,036)
.....	59,415	—
.....	(34,155)	(22,427)
.....	386	—
.....	129,148	778,180
.....	<u>(2,829)</u>	<u>—</u>
	799,130	1,198,721
.....	1,000,000	—
nts receivable	<u>(600,538)</u>	<u>1,094,059</u>
	<u>1,198,592</u>	<u>2,292,780</u>
.....	8,170	216,391
.....	49,356	49,356
.....	18,483	64,449
.....	<u>50,000</u>	<u>—</u>
	<u>126,009</u>	<u>330,196</u>
.....	1,072,583	1,962,584
.....	<u>21,773,455</u>	<u>16,645,518</u>
.....	<u>22,846,038</u>	<u>18,608,102</u>

TO THE SHAREHOLDERS:

On a consolidated basis, net earnings for our first six months increased \$290,136.00. This 80% improvement was the result of continued concentration in underwriting classes of business where it was felt rates had adjusted to existing conditions. We intend to maintain this emphasis on selective underwriting during the months ahead, and, with market capacity failing to meet demand, we see no reason for an imminent return to the inadequate rate levels of the immediate past. Although it is too early to predict the effect of the Anti-Inflation Board on our company, we trust we will be permitted to continue to pursue underwriting policies conducive to the maintenance of a strong financial position so essential to insureds as well as shareholders.

John C. Stradwick, Jr.

President

August 26, 1976

Simcoe Erie Investors Limited

Simcoe & Erie General Insurance Company

The Bay City General Insurance Company

Simcoe Bay Reinsurance Company Limited
of Bermuda

Sefco Limited

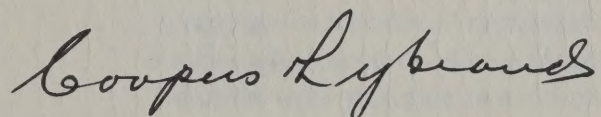
Robert Bradford of Canada Limited

Auditors' Report

To The Shareholders

We have examined the consolidated balance sheet of Simcoe Erie Investors Limited as at December 31, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

A handwritten signature in cursive script, reading "Couper Lybrand".

CHARTERED ACCOUNTANTS.



Consolidated Balance Sheet as a

Assets	1976 \$	1975 \$
Cash	3,237,064	2,265,292
Accounts receivable		
Agents	4,294,054	3,146,926
Reinsurers	287,297	343,269
Other	35,983	3,812
	4,617,334	3,494,007
Accrued interest	430,863	342,914
Investments		
Short-term deposits	1,805,959	1,562,268
Bonds—at amortized cost (quoted market value 1976—\$17,362,762; 1975—\$13,288,421)	17,684,163	14,792,803
Stocks—at cost (quoted market value 1976—\$4,300,459; 1975—\$2,615,433)	4,460,143	3,153,092
	23,950,265	19,508,163
Investment in subsidiary—at cost	500	500
Investment in corporate joint venture	91,664	33,016
Advance to corporate joint venture	25,000	25,000
Fixed assets—at cost less accumulated depreciation (Note 2)	140,766	127,930
Other assets	445,471	375,297
Excess of cost of investment in shares of subsidiaries over net book value of assets acquired—less amortization	177,636	188,068
Deferred premium acquisition costs	1,542,516	1,468,687
	2,423,553	2,218,498
	34,659,079	27,828,874

SIGNED ON BEHALF OF THE BOARD

A. J. Plummer
Director

Malcolm M. Webb
Director

December 31, 1976

Liabilities	1976 \$	1975 \$
Unpaid claims and provision for adjustment expenses	10,635,960	8,581,511
Accounts payable		
Reinsurers	4,409,465	3,348,299
Agents	495,471	1,126,695
Other	1,208,287	611,960
Income and other taxes payable	986,311	706,294
Reinsurers' deposits	1,883,792	1,546,097
	<u>19,619,286</u>	<u>15,920,856</u>
Unearned premiums	6,250,486	5,246,655
Bank loan (Note 3)	1,265,000	500,000
Note payable	63,419	63,980
6% Convertible debentures (Note 4)	514,500	988,600
Deferred income taxes	654,800	641,600
	<u>8,748,205</u>	<u>7,440,835</u>
Minority interest	<u>7,538</u>	<u>6,434</u>
Shareholders' Equity		
CAPITAL STOCK (Notes 4 and 5)		
Authorized 2,000,000 Common shares without par value		
Issued 1,113,545 Shares (1975—987,119)	3,137,739	2,663,641
RETAINED EARNINGS	<u>3,146,311</u>	<u>1,797,108</u>
	<u>6,284,050</u>	<u>4,460,749</u>
	<u>34,659,079</u>	<u>27,828,874</u>

Consolidated Statement of Retained Earnings

For the Year Ended December 31, 1976

	1976 \$	1975 \$
BALANCE — BEGINNING OF YEAR	1,797,108	1,294,366
Net earnings for the year	<u>1,457,786</u>	<u>601,454</u>
	3,254,894	1,895,820
Dividends (Note 6)	<u>108,583</u>	<u>98,712</u>
BALANCE — END OF YEAR	<u><u>3,146,311</u></u>	<u><u>1,797,108</u></u>



Consolidated Statement of Earnings

For the Year Ended December 31, 1976

	1976 \$	1975 \$
GROSS PREMIUMS WRITTEN	<u>47,341,111</u>	<u>34,275,929</u>
REVENUE		
Premiums earned	16,139,110	11,770,505
Management fees	31,952	13,563
Investment income	<u>1,980,503</u>	<u>1,508,158</u>
	<u>18,151,565</u>	<u>13,292,226</u>
EXPENSES		
Claims incurred	10,926,510	8,549,384
Commissions	1,977,411	1,971,343
Premium taxes	907,090	629,857
Other underwriting	1,787,378	859,667
Administration and investment	494,776	398,739
Debenture interest	<u>59,316</u>	<u>59,316</u>
	<u>16,152,481</u>	<u>12,468,306</u>
	<u>1,999,084</u>	<u>823,920</u>
PROVISION FOR INCOME TAXES		
Current (Note 7)	585,642	130,623
Deferred	<u>13,200</u>	<u>152,300</u>
	<u>598,842</u>	<u>282,923</u>
EARNINGS BEFORE EQUITY IN NET EARNINGS OF CORPORATE JOINT VENTURE AND MINORITY INTEREST	1,400,242	540,997
EQUITY IN EARNINGS OF CORPORATE JOINT VENTURE	58,648	59,689
MINORITY INTEREST	<u>1,104</u>	<u>(768)</u>
NET EARNINGS FOR THE YEAR (Notes 8 and 9)	<u>1,457,786</u>	<u>601,454</u>

Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1976

	1976 \$	1975 \$
RESOURCES PROVIDED		
Operations		
Net earnings for the year	1,457,786	601,454
Deferred income taxes	13,200	152,300
Depreciation and amortization	51,950	40,667
Amortization of the excess of cost of investment in shares of subsidiaries over net book value of assets acquired	10,432	10,432
Realization of other assets	—	48,960
Share of earnings of corporate joint venture	(58,648)	(59,689)
Unrealized exchange (gain) loss	(561)	1,697
Minority interest share in earnings	1,104	(768)
Increase in unearned premiums	1,003,831	1,128,783
	2,479,094	1,923,836
Increase in accounts payable over accounts receivable	2,487,154	2,963,914
Proceeds of bank loans	1,000,000	—
	5,966,248	4,887,750
RESOURCES APPLIED		
Increase in deferred premium acquisition costs	73,829	314,183
Dividends	108,583	98,712
Repayment of bank loans	235,000	103,684
Advance to corporate joint venture	—	25,000
Purchase of fixed assets	64,788	81,178
Purchase of other assets	70,174	—
	552,374	622,757
INCREASE IN RESOURCES	5,413,874	4,264,993
RESOURCES — BEGINNING OF YEAR	21,773,455	17,508,462
RESOURCES — END OF YEAR	27,187,329	21,773,455
REPRESENTED BY:		
Cash	3,237,064	2,265,292
Investments	23,950,265	19,508,163
	27,187,329	21,773,455

Notes to Consolidated Financial Statements

For the Year Ended December 31, 1976

1. Significant Accounting Policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the company and three of its subsidiary companies, Simcoe & Erie General Insurance Company, The Bay City General Insurance Company and Simcoe Bay Reinsurance Company Limited. The investment in an inactive fourth subsidiary, Sefco Limited, has not been consolidated as the accounts are not material in relation to these statements. The investment in Robert Bradford of Canada Limited, a corporate joint venture, is accounted for on an equity basis.

(b) Amortization

The excess cost of investment in shares of subsidiaries over net book value of assets acquired is being amortized on a straight line basis over twenty years. The amount charged to earnings during the year was \$10,432 (1975 - \$10,432).

2. Fixed Assets

	1976	1975
	\$	\$
Equipment, automobiles, computer programs and leasehold improvements	344,276	279,490
Less: Accumulated depreciation and amortization	203,510	151,560
	<u>140,766</u>	<u>127,930</u>

3. Bank Loan

The common shares of subsidiary companies representing net assets of approximately \$5,990,000 have been pledged as security for the bank loan.



4. Convertible Debentures

The debentures are secured by a first floating charge on the assets and undertaking of the company and are convertible into common shares at \$5.00 per share on or before December 31, 1981; 102,900 shares have been set aside to satisfy the remaining conversion privileges. During the year, 126,426 common shares were issued at \$3.75 per share on conversion of \$474,100 of debentures.

5. Share Warrants

There are 9,670 share warrants outstanding as at December 31, 1976 which may be exchanged for common shares on the same basis as the convertible debentures described in Note 4.

6. Anti-Inflation Act

The company is subject to restraint of dividends under the terms of the Anti-Inflation Act and Regulations which became effective October 14, 1975, and are due to expire December 31, 1978.

On April 15, 1976 two subsidiaries, Simcoe & Erie General Insurance Company and The Bay City General Insurance Company, became subject to compliance with the prices and profits provisions of the Act and Regulations.

7. Income Tax Provision

The current income tax provision is shown net of \$36,650 reduction in this year's taxes due to a loss carry-forward in one of the subsidiaries.

8. Earnings Per Share

	1976 \$	1975 \$
Basic	→ 1.48	.61
Adjusted basic	1.32	-
Fully diluted	1.22	.50

Basic earnings per share are calculated based on the weighted average number of common shares outstanding during the year.

Adjusted basic earnings per share are calculated assuming that the 126,426 shares issued December 31, 1976 on conversion of \$474,100 in debentures occurred January 1, 1976. Earnings applicable to common shares were adjusted by the interest, after income tax, (\$28,446) on those debentures converted.

The calculation of fully diluted earnings per share assumes that all of the outstanding 6% debentures and share warrants were converted into common shares as of January 1, 1976. Earnings applicable to common shares were adjusted by the interest, after income tax, on the 6% debentures (\$30,844) and imputed interest on the share warrants (\$25,515). The number of common shares outstanding was adjusted to reflect the additional shares that would have resulted on conversion (112,570).

9. Statutory Information

Expenses for the year include depreciation and amortization in the amount of \$51,950 (1975 - \$40,667).

The remuneration of directors and senior officers of the company and its subsidiaries, as defined by the Business Corporations Act (Ontario) amounted to \$188,499 (1975 - \$173,753).



